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FAR EAST PACIFIC DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 70

DATE: 4 October 1949

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AUTH. H-2
REVIEWER: 372044

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 70
28 SEPTEMBER to 4 OCTOBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS
25X6A

Despite recent purges, the Korean National Assembly has demonstrated its continued independence by overriding a Rhee veto (p. 3).

Moderation appears to have been the theme in activities surrounding the establishment of the "Peoples' Republic of China" (p. 3). Meanwhile, a Communist-dictated solution to the differences between the rebel Ili group and the ex-Nationalists in remote Sinkiang can be expected (p. 4), and the Nationalist blockade of Shanghai, while causing mass unemployment, has not disrupted life in that city as much as might be expected (p. 5).

In Burma, the Government has announced liberal plans for industrialization which may serve to entice foreign capital and the leader of the Karens has indicated the peace terms his people are willing to accept (p. 7).

Premier Hatta, chief Indonesian Republican negotiator at The Hague, is under attack by Indonesians at home and abroad for being too conciliatory towards the Dutch (p. 8).

Philippine constabulary and Manila police have raided one of the city's toughest districts, following reports of Huk infiltration (p. 8).

NOTE: a D/FE extract from the summary of a recent OIR report, "Problems of Domestic and Foreign Policy confronting the Chinese Communists", is contained in Section III, page 10.

The marginal notations used in succeeding sections of this weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

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NEWS NOTE

Cold shoulder from GATT--A further US attempt to assist Japan's resumption of international responsibilities has failed. The GATT (General Agreement on Tariffs and Trade) Working Party, meeting in London in late September, while extending an invitation to Western Germany and the Republic of Korea to enter into the 1950 tariff negotiations, reached a majority decision not to send a similar invitation to Japan.

While the intransigence of various countries in postponing Japan's reentry into international affairs ostensibly stems from dread of Japanese commercial competition and military resurgence, it may well be that those GATT representatives whose governments also sit on the Far Eastern Commission feel that only this sort of veto power can be exercised over the nearly unilateral Occupation in Japan.

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KOREA

National Assembly shows independence—An encouraging sign that the Executive branch still has effective opposition within the structure of the Korean Republic's government has been demonstrated by actions of the recently-convened National Assembly, where the Executive's ruthless purging of leftist elements apparently has failed to subordinate the legislature to the will of President Rhee.

"B"

Assembly independence was brought to the test over consideration of the Presidential veto on the Law on the Organization of the Courts. Rhee's stand that the Constitution gave him the power to appoint the Chief Justice without consultation or recommendation of any other government body, an obvious attempt to maintain and strengthen Executive power over the Courts, was defeated by a vote of 117 to 37 when put to a secret ballot in the Assembly.

NEWS NOTE

UNCOK extended—A special Political Committee of the UN General Assembly voted 44 to 6 to continue the United Nations Commission on Korea (UNCOK). With the substitution of Turkey for Syria in the membership, UNCOK was authorized (a) to appoint military observers to report on incidents of a military nature and (b) to continue attempts to "verify the withdrawal of Soviet occupation forces (from northern Korea) insofar as it is in a position to do so."

CHINA

Communists proclaim Peoples' Republic of China—The "Peoples' Republic of China" was officially proclaimed on 1 October by MAO Tse-tung, in his position as the newly-elected Chairman of the Central Peoples' Government.¹ Vice-Chairmen of the new regime are: CHANG Lan (Democratic League Chairman); CHU Teh (C. in C. of the Communist Army); KAO Kang (Chairman of the Northeast Peoples' Government); LI Chi-shen (Chairman of the Kuomintang Revolutionary Committee); LIU Shao-chi (the Party's leading Marxist theoretician); and Mme. SUN YAT SEN (distinguished "democratic personage"). Prior to their election, all six vice-Chairmen enthusiastically endorsed the leadership and program of Chairman MAO in major speeches. Premier and Foreign Minister

"B"

¹ The full title of the new Government is "The Central Peoples' Government of the Peoples' Republic of China". This title appears to combine identification of the Central governing body with the name of the sovereign state of China. "The Federal Government of the United States of America" would, it is presumed, be the comparable term.

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of the new Government is CHOU En-lai, who served as chief Communist negotiator during the Marshall mediation mission, and who is generally regarded as the most nearly 'pro-Western' CCP leader.

Moderate "New Democracy" propaganda extends even to the design of the national flag - red with a large yellow star at the upper left (representing the Communist Party), flanked by a row of four smaller yellow stars, (representing the four "friendly" classes of people - farmers, workers, petty bourgeoisie, and "national capitalists"). This action lends further weight to LIU Shao-chi's "minimum program" speech, in which LIU, a leading extremist, was chosen to announce MAO's policy of gradualism in achieving the ultimate "socialist" aims of the Chinese Communist Party. In the field of foreign relations, as well, policy statements were notably moderate. Denunciation of United States "imperialism" was comparatively restrained, and the desire for establishment of diplomatic relations with all countries on a basis of "equality and mutual respect" was reiterated. Especially close friendship with the Soviet Union was, however, announced as a cardinal policy of the new Government.

The formal establishment of the Peoples' Republic of China does nothing to alter the basic political realities in China. Within the framework of a "coalition" of political groups and a proliferating administrative structure, the Central Committee of the Chinese Communist Party will continue to wield ultimate authority in the areas over which it has won control through military conquest and political negotiation. In the international field, however, the claims of the new Government, already recognized by the Soviet Union and various Eastern European satellites, to the Nationalists' position in the United Nations, will create immediate and concrete problems.

Sinkiang's future--With the recent capitulation of the Nationalist-held "B" portion of remote Sinkiang, which for the past five years has been a divided province, with its three richest zones controlled by the Soviet-dominated rebel Ili regime, it is possible to forecast the probable course of future events there.

Until recently, the rebel Ili Group, which stands for native self-government and against Chinese control, has shown no interest in the KMT-CCP conflict in China proper. During the past summer, however, Ili propaganda organs began to champion the Communist cause in China, and, in mid-September, a delegation, headed by SEYFUDDIN of the Ili Group, arrived in Peking for the CPPC meetings, during the course of which the Ili Group firmly aligned itself with the victorious Communists.

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In the Nationalist part of the province, meanwhile, the withdrawal of MA Pu-fang's 5th Cavalry Army, following the Moslem collapse in Kansu, left the area virtually undefended. Various native anti-Ili Group and anti-CCP leaders, who had supported the Nationalist regime, made plans for immediate flight. General TAO Shih-yueh, commander of the province's Nationalist forces, LIU Meng-chun, Sinkiang Secretary-General, and CHU Wu, Mayor of Tihwa, all followers of General CHANG Chih-chung who joined the Chinese Communists in April, were able, once MA's Army withdrew, to declare their allegiance to the Peiping regime (see Weekly Highlights #69).

Thus, with the Ili rebels committed to the support of the CCP, and the Tihwa Nationalists "turned over", it remains for the CCP to settle the dispute between the two. The CCP can be expected to award a dominant role in the new provincial Government to the vigorous Ili Group, possibly through a "coalition" structure which will include some of the surrendering Tihwa officials. While such a Sinkiang Provincial Government would be nominally subject to the Chinese Communist Central Government, it would actually exercise a high degree of autonomy, would be strongly Soviet-influenced, and would give high priority to Soviet interests. One of the first measures to be expected of such an Ili-dominated Government would be conclusion of the long-delayed "trade" agreement with the USSR which has been under negotiation between the Soviet and the Chinese Nationalists for some time.

Effects of the Shanghai blockade--Communist authorities in Shanghai have proved themselves fairly efficient in meeting the economic problems arising from the Nationalist blockade. Although the lack of such imports as cotton and oil has cut deeply into industrial output and caused widespread unemployment, the Communists have attained some measure of success thus far in maintaining the flow of domestic supplies into the city. The present situation in several sectors of the Shanghai economy is outlined below:

"B"

a. Food--Thus far, the Communists have demonstrated an ability to feed Shanghai without foreign food imports. In large part, the Communists have been aided by the fact that crops are now being harvested and moving to market. The prospects for next year are considerably less favorable, due to crop damage from typhoons and floods, which will cause serious shortages unless foreign supplies can be imported.

b. Fuel--The shortage of petroleum imports has forced the conversion of many facilities to coal. Deterred from coastwise shipments of coal by the blockade, the Communists have succeeded in transporting the city's present requirements by rail and inland waterway. Since the Communist takeover, coal shipments into Shanghai have averaged close to 100,000 tons monthly - ample for the present low level of industrial requirements.

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Serious winter shortages for private consumers are anticipated, however, if the blockade continues.

c. Cotton--The lack of cotton imports has hurt Shanghai's most important industry-- textiles. At present, cotton mills are operating at less than one third capacity, with resultant hardship to about a million persons directly dependent on cotton mill operations. Although the cotton situation is expected to improve with the arrival of new domestic crops this month, the mills will probably run short again next spring unless foreign importations are resumed.

d. Industry--Industries generally are operating at about one third of normal levels, with raw material stocks being steadily depleted. Current handicaps to production result from sagging buying power in Shanghai and the interior, lack of adequate transport for commercial shipments because of military priorities, unavailability of Southeast Asian, American, and European export outlets, and high labor costs.

e. Shipping--The bulk of the Chinese ocean-going fleet escaped capture when the Communists took Shanghai. The Communists are thus very much dependent on foreign-flag vessels to move cargoes into Shanghai. For the present, however, almost all ocean shipping into the city has ceased. While a few ships have successfully run the blockade, the visible economic effects have been infinitesimal.

f. Railways--The Communists are making vigorous efforts to counter the blockade by increased use of railway facilities. Their measures in this regard, however, are being hampered by Nationalist strafing and bombing attacks on rolling stock, bridges and repair depots. Trains around Shanghai and Nanking are forced to operate at night only.

g. Labor--Since the Communist takeover, trade union membership in Shanghai has increased and the number of local unions has doubled. The most troublesome labor problem resulting from the blockade arose when foreign firms, attempting to liquidate or to make staff reductions, were confronted with exorbitant termination pay demands. Although the Communists have recently published regulations setting a maximum of three-months' severance pay, the regulations have been ignored in the settling of many cases.

h. Prices--Although prices increased several-fold in the first six weeks of the Communist occupation, the inflationary spiral has, for the time being at least, been halted. Current crop harvests, as well as decreased purchasing power resulting from lowered industrial activity, constitute deflationary forces. Food shortages next spring may bring a resumption of price increases.

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BURMA

Industrialization plan announced--A new industrialization policy, presented "B" by Prime Minister Thakin Nu to the Burmese Parliament contains significant proposals concerning private and foreign enterprise. All present and future industrial enterprises in Burma were assigned to one of three categories: (1) those completely Government-controlled, such as the development of atomic energy (sic) and the manufacture of munitions; (2) those operated either privately or in partnership with the Government until the Government is capable of assuming control, such as public utilities and transportation, and (3) all other, which are open to unlimited private ownership. Besides being permitted to remit money from Burma for capital renewal and dividends, foreign firms will be guaranteed against nationalization during a fixed period, determined through negotiations with the Government. The reasonable conditions imposed provide for Governmental selection of those undertakings to be permitted entry into Burma. Such undertakings must be the sort that will provide foreign exchange as a result of operations and the industries must train Burmans for administrative and technical positions. All things considered, the plan offers a constructive and realistic approach to Burma's long-term economic problems and should serve to attract foreign capital to Burma once the present problem of restoring law and order is solved.

Karen peace terms--In a recent interview, Saw Ba U Gyi, leader of the Karen "B" rebellion, stated that an independent Karen State was an accomplished fact and would remain so. He indicated, however, that the Karens were still amenable to peace with the Burmese Government and would be "glad" to remain in the Union of Burma as a self-governing state. Ba U Gyi reiterated the Karen argument that they were fighting for survival, not for partition, and specified the following conditions for a settlement: (1) the Burmese Government would not speak in terms of "surrender", (2) the Karens must be permitted to retain their arms, (3) the Burmese Government should recognize an autonomous Karen State, and (4) the Karens should be guaranteed the right to secede from the Union at their discretion. Significantly, Ba U Gyi added that any settlement would have to be ratified by the other hill peoples of Burma (the Shans, Chins and Kachins), thus indicating that there has, in fact, been some liaison between these peoples regarding common aspirations and action.

Such terms have been unacceptable to the Government in the past, and probably will continue to be so, even though a settlement of the Karen problem would constitute a long step towards a restoration of stable conditions in Burma.

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INDONESIA

Hatta under attack for "conciliation"--Mohammed Hatta, Premier of the Republic of Indonesia and chief Republican delegate to Conference on Indonesia at The Hague, appears to be losing the support of certain influential Republicans both in Indonesia and abroad. Several members of the two leading political parties, the Masjumi (Moslem) and Partai Nasional Indonesia, which constitute the present Republican Government, have openly expressed disapproval of Hatta's "conciliatory" policy in negotiating with the Dutch. Dr. Sukiman, head of the Masjumi Party, is among those who have been reported to disagree with Hatta's policy at The Hague, while Palar, the Republican representative to the UN Security Council, who has recently arrived at The Hague, has joined the attacks on Hatta's position. "A"

This development means that President Sukarno is faced with the urgent problem of reconciling dissatisfied party leaders and convincing the people that Hatta's negotiations have not in fact compromised Indonesia's sovereignty. If he fails, lack of popular support in Indonesia at this juncture could fatally weaken the Republican delegation at The Hague. Should the Dutch then demand more comprehensive safeguards from a weakened Republican delegation, the likelihood of reaching an effective agreement of any sort would be slight. Even if this development is avoided, continued indigenous opposition to Premier Hatta will undermine the strength of the Republican Government at a time when it will be facing many grave problems.

PHILIPPINES

Manila police launch Huk drive--Following reports of the presence in Manila of Luis Varuc and other Huk leaders, local police--in cooperation with the Philippine Constabulary--launched a raid on one of the city's toughest districts early Sunday morning, 2 October, which netted 64 suspects. Most of the persons arrested were subsequently released, but the Manila police announced that the search for seven Huk leaders--who are reported to be organizing "planned sabotage" in Manila during the elections--will continue. "B"

Adverse reaction to the raid was immediate. Both Laurel's Nationalista and Avelino's Liberal Party headquarters denounced the move as "fascistic". Mariano Balgos, Communist Party secretary-general and officer of the militant Congress of Labor Organizations, has advocated a general strike in protest. The administration, however, probably will continue to push its investigation of subversive activities not only in Manila but throughout the Philippines. Administration motives are, first, to counter opposition charges that it is incompetent to maintain law and order, and, second, to discredit Laurel, whose Communist supporters, according to the Quirino administration, are plotting the overthrow of the Government.

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AUSTRALIA

NEWS NOTE

The Australian Government has announced that it will comply with a request from India and Pakistan to deny passports to Australian Communists whose presence is not desired in either country. This action marks a further step in the Labor Government's current efforts to contain and suppress Communism and is the first instance where the Government has restricted the civil rights of Australian Communists. Arthur Calwell, Minister of Immigration has stated that similar action would be taken in the case of Singapore and Malaya if such an appeal were received.

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SECTION III. BRIEF OF IMPORTANT STUDIES AND ESTIMATES

NOTE: Following are extracts from the Summary of OIR's Report entitled "Problems of Domestic and Foreign Policy Confronting the Chinese Communists."

No probable combination of internal and external circumstances justifies an expectation that the new Chinese Communist regime will be overthrown within the next five years. The CCP, in all probability, will continue to consolidate its political power.

Because Communist doctrine, as now applied to China, sanctions greater flexibility in domestic than in foreign policies, the initial CCP response to adverse developments may be expected to take the form of adjusting domestic programs rather than international alignments. No early change in the strongly pro-Soviet orientation of the CCP is to be anticipated.

The CCP must construct a new political system which will elicit the support of key social groups and neutralize the ever-present tendency toward regionalization of political interests, while still maintaining Party authority in policy matters; effect a radical reorganization of the structure of production, while at the same time striving to raise production from its current inadequate levels; enlist the cooperation of the peasantry, urban labor, and the middle class, while restricting consumption in the interest of maximizing investment, and expand foreign trade in the face of an ideological compulsion to resist foreign "imperialism."

The most likely manner in which ideology might operate to defeat the CCP's program is through inducing a premature application of extreme measures of social change.

The CCP's need to realize the maximum possible return from foreign trade may lead Party leaders to seek close economic relations with non-Communist nations. Should these relations be minimized by inept Soviet intervention, the CCP would be seriously handicapped in its attempts at economic reconstruction. Concerted application of restrictions on trade with Communist China by the major western powers would produce similar results.

The CCP would suffer severely from an attempt by the USSR to exploit Manchuria. By absorbing Manchuria's export surplus at less than world market prices, or by demanding extortionate returns from Soviet holdings and rights in the area, the USSR would sharply reduce the volume of domestic resources available for investment, especially those resources readily exchangeable for foreign imports.

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A rational survey of the conflicts and identities of interest between China and the US, and between China and the USSR, would indicate a more nearly neutral Chinese Communist position in the 'cold war' than now obtains. However, ideology, perhaps reinforced by a fear of "imperialistic aggression," at present appears to be the dominant force in the formulation of Chinese Communist foreign policy.

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